

# Vanguard Fund Family Overview

Contributed by Kirk Lindstrom, David Korn & Henry To  
Thursday, 30 August 2007

## Vanguard Fund Family Overview

Founded: May 1, 1975 by John Bogle

Mailing Address: P.O. Box 1110, Valley Forge, Pennsylvania 19482

Corporate Headquarters: Valley Forge, Pennsylvania

Assets Under Management: Over \$950 billion in U.S. mutual funds

Number of Funds: 130 domestic and 40 international funds

Number of Investors: 21.5 million institutional and individual accounts

Average Expense Ratio: 0.21%

For most investors, the best way to save for the long-run is to allocate your assets appropriately between different asset classes (domestic stocks, international stocks, bonds, cash, and so forth) depending on your time horizon, income needs, and risk tolerances (i.e. what you can sleep with when you go to bed at night). The best way to do this is to find a list of low-cost, simplistic, low-turnover, and stable funds with broad diversification and representation of the investable universe, since most mutual fund managers have historically underperformed their benchmarks. Based on our experience, the Vanguard fund family fits this bill perfectly.

Founded in 1975 by legendary investor John Bogle, Vanguard has a great reputation and is one of the few mutual fund families known for its integrity and innovation at index investing. It was the first fund family to create an S&P 500 index fund that was specifically catered to retail investors (1976), a bond index fund (1986), and an international stock index fund (1990). Today, the Vanguard Fund Family has 170 individual funds (including fund of funds and lifestyle funds) with an average expense ratio of only 0.21% (the expense ratios can be furthered reduced by 18% to 50% if you are qualified to invest in the "Admiral" class of shares). It also has one of the lowest turnover percentages as a group in the mutual fund industry as well as the most simplistic expense and fee structure (most of its mutual funds have only two classes of shares, whereas many mutual fund families have five or more classes with many different expense and load structures).

For an investor seeking a simple streamlined approach, one can achieve a broad allocation of asset classes by just investing in the following four Vanguard funds:

- Vanguard Prime Money Market Fund (VMMXX)
- Vanguard Total Bond Market Index Fund (VBMFX)
- Vanguard Total Stock Market Index Fund (VTSMX)
- Vanguard Total International Stock Index Fund (VGTSX)

The Vanguard Prime Money Market Fund provides a reasonably high yield (it is currently yielding about 5%) and it also does the job of taking care of your daily liquidity needs. As for the others, the Vanguard Total Bond Market Index Fund effectively gives you wide exposure to the domestic bond market (and a little foreign exposure as well), while the Vanguard Total Stock Market Index and the Vanguard Total International Stock Index funds will effectively give you nearly total exposure to both the U.S. and the international stock markets.

While the above strategy is relatively simple, there is no avoiding the need to rebalance your allocation — we recommend at least once a year — given that your investment time horizon and your risk tolerance is always changing. If you happened to have no time to focus on your investments, then it may make more sense invest in a certain LifeStyle or Target-Date fund in the Vanguard Fund Family. We at The Retirement Advisor do not typically recommend these funds, as we believe it is imperative for you to actually spend a little bit of time on your investments in order to make sure you are saving enough for retirement or for other financial goals.

On the contrary, we at The Retirement Advisor have actually picked four to nine different funds for our model portfolios from the Vanguard Fund Family instead of the more simple structure. In trading away pure simplicity, having up to nine different funds will allow us to have more flexibility in rebalancing our portfolios, such as adjusting periodically to reflect our changing preferences for U.S. domestic large caps vs. small caps, or European stocks vs. Pacific stocks, and so forth. At the same time, we also realize that Vanguard also offers many sector-based funds. However, we do not

advocate trying your luck at allocating your money between the different sector funds, as not even most professionals can master such a strategy successfully as to be able to beat the market over time.

**Fund Family Highlight:** Each month we will highlight a major fund family and offer substations from that family for our model portfolios. On our web site, subscribers can get FREE back issues of The Retirement Advisor to review fund families we covered in prior issues.